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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Grand Traverse/Leelenau County FIA for the period April 1, 2003 through June 10, 2004. The objectives of our audit were to determine if internal controls in place in the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Grand Traverse/Leelenau County FIA had 53 full time equated positions (FTE's) at the time of our review. Grand Traverse County FIA provided assistance to an average 4,359 customers per month during FY 2003, with total assistance payments of \$5,070,792 during that year. Leelanau County FIA provided assistance to an average 829 customers per month, with total assistance payments of \$648,373 during FY 2003.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Grand Traverse/Leelanau County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Cash Receipts

Cash Disbursements

State Emergency Relief

Safe and Controlled Documents

General Ledger

CIS/ASSIST/LASR Controls

Customer Processing

Payroll and Timekeeping

Procurement Cards

Direct Supportive Services

Balance Sheet

Children's Protective Services

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Grand Traverse/Leelanau County FIA's internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found instances of noncompliance with FIA policies and procedures and weaknesses in internal controls in other areas, which are detailed below.

## **CORRECTIVE ACTION**

Grand Traverse/Leelanau County FIA informed us that they were in agreement with our audit report, and had implemented corrective action for all findings as of August 23, 2004.

## **FINDINGS AND RECOMMENDATIONS** **Modified Accrual Basis Balance Sheet**

### **Accounts Receivable Due from State**

1. Grand Traverse/Leelanau County FIA did not reconcile the Accounts Receivable Due from State Accounts listed on the Balance Sheet to the detail for 1 of the pending files. Accounting Manual Item 402-3 requires a monthly reconciliation of accounts receivable due from State to be performed by comparing the General Ledger balance for each 078 account to the total of the documents in the respective Outstanding Accounts Receivable file. The latest month's reconciliation must be retained on file. Reconciling the Due from State account to the detail ensures that the account balances are correct and all transactions are accounted for.

WE RECOMMEND that Grand Traverse/Leelanau County FIA reconcile the Accounts Receivable Due from State Accounts.

## **General Ledger**

### **Bank Reconciliation - Improper Separation of Duties**

2. Grand Traverse/Leelanau County FIA did not properly separate the duties of the employee reconciling the bank statement. The same employee who reconciles the bank statement also controls the inventory of blank checks. Accounting Manual Item 405 states for internal control purposes the person reconciling the disbursing account must not be responsible for blank check inventory control. The person reconciling the depository account must not be the cashier.

WE RECOMMEND that Grand Traverse/Leelanau County FIA separate the duties of reconciling the bank statement and blank check inventory.

## **Cash Receipts**

### **Unreceipted Collections**

3. Grand Traverse/Leelanau County FIA employee received donated funds without providing the donor a field receipt. Accounting Manual Item 432 states that an employee collecting monies in the field must issue a Field Receipt to record the receipt of funds. Preparing a field receipt will provide an audit trail and verification that funds were received and properly accounted for.

WE RECOMMEND that Grand Traverse/Leelanau County FIA require field receipts preparation for all donated funds received in the field or request the donor mail the funds to the local office.

## **CIMS/ASSIST/LASR Security**

### **CIMS Security Agreements**

4. The Grand Traverse/Leelenau County FIA did not have accurate, up-to-date CIMS Security Agreements (FIA-3974A) on file for 10 out of the 43 employees who access the Client Information Management System (CIMS), as required by L-Letter 97-063. Five employees had a status code indicated on the FIA-3975A that did not agree with the current status code listed on the Operator Identification Report (PF-011). Five employees had a change in status and a new FIA-3975A was not prepared as required by L-Letter 97-063. In addition there is one employee that is no longer working in Grand Traverse County and three employees are zone employees and are reflected on the Grand Traverse/Leelanau PF-011.

WE RECOMMEND that the Grand Traverse/Leelenau County FIA ensure that all employees who have access to CIMS have an accurate, up-to-date Security Agreement on file, and CIMS access is removed for all employees who leave the Unit.

### **Security Officers Log Report (LR-853)**

5. Grand Traverse/Leelenau County FIA did not reconcile the LASR Security Officers Log Report (LR-853) to the LASR Security Access Requests (LR-84) as recommended by the Primary Internal Control Criteria for Local/District Office Operations. Reconciliation of these reports ensures that all changes made are accurate and approved by supervision.

WE RECOMMEND that Grand Traverse/Leelenau County FIA reconcile the LR-853 reports to revised Security Agreements, Enrollment Profiles, and LASR Security Access Requests.

#### VB9-554 Report

6. Grand Traverse/Leelenau County FIA did not reconcile the ASSIST User Report (VB9-554) to the ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721), as required by L-Letter L-97-156. This reconciliation is necessary to ensure that all employees who have access to ASSIST are properly authorized for their assigned job types. The latest VB9-554 report was dated 12/30/03.

WE RECOMMEND that Grand Traverse/Leelenau County FIA reconcile the VB9-554 report to the ASSIST Enrollment Profiles and Security Agreements.

#### **Safe and Controlled Documents**

##### Items Not Controlled

7. Grand Traverse/Leelenau County FIA did not properly control the Purchase Orders or Cash Receipts that were on hand. The Purchase Orders and Cash Receipts did not have a Controlled Document Log (FIA-4070) prepared. Accounting Manual Item 403 states that all controlled items must have a completed Controlled Document Log (FIA-4070) prepared on an ongoing basis and maintain accurate and up to date logs.

WE RECOMMEND that Grand Traverse/Leelenau County FIA inventory all controlled items and keep an up to date Controlled Document Log.

##### Monthly Inventory of Controlled Documents– Improper Separation of Duties

8. Grand Traverse/Leelenau County FIA did not have proper separation of duties for the reconciliation of the controlled documents. The person who performs the inventory and reconciliation of controlled documents also has access to the controlled

documents. Accounting Manual Item 403 and Primary Internal Control Criteria for Local/District Offices require that two staff, one of whom is independent of the accounting function, perform the FIA-4351 physical count and reconciliation. Requiring two people (including one independent of the controlled document process) to perform the reconciliation and prepare the FIA-4351 reduces the risk of inaccurate reporting.

WE RECOMMEND that Grand Traverse/Leelanau County FIA have 2 people perform the Monthly Reconciliation of Controlled Documents .

### **Payroll and Timekeeping**

#### **Reconciliation of HR-332A (B) Turnaround Report**

9. Grand Traverse/Leelanau County FIA did not reconcile the turnaround HR-332A to the original HR-332A report a week after payroll was run. The Primary Internal Control Criteria for Local/District Office Operations recommends that the local office reconcile the turnaround report to verify that the actual time reported agrees with the time that was originally submitted.

WE RECOMMEND that the Grand Traverse/Leelanau County FIA reconcile the turnaround HR-332A report to the original HR-332A report.



#### Approval and Signature of Time and Attendance Reports

10. Grand Traverse/ Leelanau County employees did not always complete the Time and Attendance Reports (FIA-4299). For the two pay periods reviewed there were three FIA-4299's that were not signed by the supervisors and one that was not signed by the employee. The Primary Internal Control Criteria for Local/District Office Operations recommends that the employee accurately complete a biweekly time sheet, FIA-4299, and that the supervisor approve the employee time and attendance reports, attesting to the accuracy of all reported time.

WE RECOMMEND that the Grand Traverse/Leelanau County FIA have all the employees accurately complete and sign a biweekly time report, FIA-4299, and have the report approved by their supervisor.

#### Payroll Record Retention

11. Grand Traverse/Leelanau County FIA's timekeeper maintained the certified copy of the Time and Attendance Summary Report (HR-332A) and timesheets. The Primary Internal Control Criteria for Local/District Offices Operations recommends that someone other than the timekeeper retain the HR-332A, so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that the Grand Traverse/Leelanau County FIA have the certifier or someone other than the timekeeper retain the HR-332 A report and timesheets.

#### Timesheet Hours Different from the Hours on the HR-332A Report

12. Grand Traverse/Leelanau County FIA had one timesheet that had different hours recorded than what was showing on the HR-332A report. The Primary Internal Control Criteria for Local/District offices states that corrections are to be made

from appropriate supporting documentation and approved by the authorized certifier. Maintaining appropriate documentation for corrections made to time and attendance will provide reasonable assurance that the payroll is accurate and appropriate.

WE RECOMMEND that the Grand Traverse/Leelanau County FIA attach supporting documentation for corrections made to the timesheets.

### **State Emergency Relief**

#### **Supporting Documentation for Payments**

13. Grand Traverse/Leelanau County FIA did not follow the established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the FIA-849, 93(A) Issuance Report (ES-440). Four payments out of 74 reviewed was supported with a copy of the bill instead of the original and two payments were made for more than the bill amount. Accounting Manual Item 404 requires that the original vendor invoice/bill be attached to the Accounting Office copy, and that only the amount due on the bill be paid via the FIA-849. Attaching the original invoice/bill for the amount to be paid to the Fiscal Office copy of the FIA-849 helps prevent duplicate payments.

WE RECOMMEND Grand Traverse/Leelanau County FIA attach the original invoice/bill to the Fiscal Office copy of the Authorization Invoice (FIA-849) that is used for reconciliation purposes and pay only the amount due on the bill.

## **Direct Supportive Services**

### **Documentation for Vehicle Purchase and Repair**

14. In 4 out of 8 cases where Grand Traverse/Leelanau County FIA did not complete the Support Services Determination and/or Education Plan Approval Form (FIA-4749) completed for car repairs, purchase and insurance payments to document the need for these payments as required by PEM Item 232, page 9.

WE RECOMMEND Grand Traverse/Leelanau County FIA document the need for the vehicle repairs, purchases and insurance payments on the FIA-4729.